

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|------------------------------------|--|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Township of North Branch | County Lapeer |
| Fiscal Year End June 30, 2007 | Opinion Date September 19, 2007 | Date Audit Report Submitted to State September 27, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

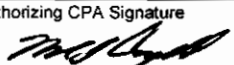
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11
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|---------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | N/A | |
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | Telephone Number 989-894-1040 | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | | City Bay City | State MI |
| | | Zip 48707 | |
| Authorizing CPA Signature  | Printed Name Mark J. Campbell | | License Number 1885282 |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

September 19, 2007

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of North Branch, Lapeer County, Michigan as of and for the year ended June 30, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of North Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of North Branch, Lapeer County, Michigan as of June 30, 2007, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

The Management's Discussion and Analysis report of the Township of North Branch covers the Township's financial performance during the year ended June 30, 2007.

FINANCIAL HIGHLIGHTS

No major purchases have been made during this fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. The Township's governmental funds include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The revenue of the Township was somewhat less than the prior year. Primarily property taxes and revenue sharing are the main source of funding for the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund's fund balance increased by \$8,935.59 to \$401,193.03, the Fire Fund fund balance increased by \$38,686.33 to \$209,316.92, the Library Fund fund balance increased by \$82,014.33 to \$594,697.93 and the Building Fund fund balance decreased by \$8,233.45 to \$47,828.06.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township acquired \$13,551.95 in new capital assets during the fiscal year ended June 30, 2007.

Principal payments on long-term debt were \$102,313.51.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Our Township Building roof system is being considered for replacement of a truss system as it is a flat roof and requires constant repair. This repair will be in the range of \$50,000.00 to \$60,000.00.

The Township revenues have plateaued. We do not expect any significant increases in taxes or revenue sharing. The Board has to be very conscientious of the decisions regarding projects.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial reports are intended to provide an overview of the Township's finances and to show necessity for the monies received by the municipality.

Any questions about our report or need for additional information should be directed to the Supervisor of the Township.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS

June 30, 2007

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | 1 225 330 94 |
| Petty cash | 150 00 |
| Due from State | <u>27 555 00</u> |
| Total Current Assets | <u>1 253 035 94</u> |
| NON-CURRENT ASSETS: | |
| Capital Assets | 2 297 770 36 |
| Less: Accumulated Depreciation | <u>(835 401 73)</u> |
| Total Non-current Assets | <u>1 462 368 63</u> |
| TOTAL ASSETS | <u><u>2 715 404 57</u></u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES | <u>-</u> |
| Total Current Liabilities | <u>-</u> |
| NON-CURRENT LIABILITIES: | |
| Contracts payable – equipment | 193 908 87 |
| Contracts payable – roads | <u>280 000 00</u> |
| Total Non-current Liabilities | <u>473 908 87</u> |
| Total Liabilities | <u>473 908 87</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 1 268 459 76 |
| Unrestricted | <u>973 035 94</u> |
| Total Net Assets | <u>2 241 495 70</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>2 715 404 57</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2007

| | <u>Expenses</u> | <u>Program Revenue</u> | <u>Governmental Activities</u> |
|--------------------------------------|--------------------------|---------------------------------|--|
| | | <u>Charges for Services</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| Legislative | 3 653 95 | - | (3 653 95) |
| General government | 147 589 37 | 30 689 52 | (116 899 85) |
| Public safety | 235 252 04 | 51 989 37 | (183 262 67) |
| Public works | 65 480 49 | - | (65 480 49) |
| Culture and recreation | 215 367 36 | - | (215 367 36) |
| Interest on long-term debt | <u>25 846 59</u> | <u>-</u> | <u>(25 846 59)</u> |
| Total Governmental Activities | <u><u>693 189 80</u></u> | <u><u>82 678 89</u></u> | <u><u>(610 510 91)</u></u> |
| General Revenues: | | | |
| Property taxes | | | 475 510 33 |
| Penal fines | | | 50 980 92 |
| State revenue sharing | | | 186 950 37 |
| Interest | | | 11 430 26 |
| Miscellaneous | | | <u>28 326 14</u> |
| Total General Revenues | | | <u><u>753 198 02</u></u> |
| Change in net assets | | | 142 687 11 |
| Net assets, beginning of year | | | <u><u>2 098 808 59</u></u> |
| Net Assets, End of Year | | | <u><u><u>2 241 495 70</u></u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2007

| | <u>General</u> | <u>Fire</u> | <u>Library</u> | <u>Other Funds</u> | <u>Total</u> |
|------------------------------------|-------------------|-------------------|-------------------|------------------------|---------------------|
| <u>Assets</u> | | | | | |
| Cash in bank | 371 998 29 | 209 316 92 | 594 597 93 | 47 778 06 | 1 223 691 20 |
| Petty cash | - | - | 100 00 | 50 00 | 150 00 |
| Due from State | 27 555 00 | - | - | - | 27 555 00 |
| Due from other funds | <u>1 639 74</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1 639 74</u> |
| Total Assets | <u>401 193 03</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>47 828 06</u> | <u>1 253 035 94</u> |
| <u>Liabilities and Fund Equity</u> | | | | | |
| Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund equity: | | | | | |
| Fund balances: | | | | | |
| Unreserved: | | | | | |
| Undesignated | <u>401 193 03</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>47 828 06</u> | <u>1 253 035 94</u> |
| Total fund equity | <u>401 193 03</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>47 828 06</u> | <u>1 253 035 94</u> |
| Total Liabilities and Fund Equity | <u>401 193 03</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>47 828 06</u> | <u>1 253 035 94</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

| | |
|---|----------------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS | 1 253 035 94 |
| Amounts reported for governmental activities in the statement of net assets are different because – | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet: | |
| Capital assets at cost | 2 297 770 36 |
| Accumulated depreciation | (835 401 73) |
| Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds: | |
| Contracts payable – equipment | (193 908 87) |
| Contracts payable – roads | <u>(280 000 00)</u> |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | <u><u>2 241 495 70</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2007

| | <u>General</u> | <u>Fire</u> | <u>Library</u> | <u>Other Funds</u> | <u>Total</u> |
|--|-------------------|-------------------|-------------------|------------------------|---------------------|
| Revenues: | | | | | |
| Property taxes | 140 440 02 | 132 283 66 | 202 786 65 | - | 475 510 33 |
| Licenses and permits | - | - | - | 45 205 00 | 45 205 00 |
| State revenue sharing | 182 121 77 | - | 4 828 60 | - | 186 950 37 |
| Charges for services: | | | | | |
| Property tax administration | 30 689 52 | - | - | - | 30 689 52 |
| Fire | - | 6 784 37 | - | - | 6 784 37 |
| Penal fines | - | - | 50 980 92 | - | 50 980 92 |
| Interest | 1 523 97 | 1 736 74 | 8 086 20 | 83 35 | 11 430 26 |
| Miscellaneous | 10 822 35 | 553 00 | 16 934 79 | 16 00 | 28 326 14 |
| Total revenues | <u>365 597 63</u> | <u>141 357 77</u> | <u>283 617 16</u> | <u>45 304 35</u> | <u>835 876 91</u> |
| Expenditures: | | | | | |
| Legislative: | | | | | |
| Township Board | 3 653 95 | - | - | - | 3 653 95 |
| General government: | | | | | |
| Supervisor | 10 508 21 | - | - | - | 10 508 21 |
| Elections | 5 720 29 | - | - | - | 5 720 29 |
| Assessor | 20 859 35 | - | - | - | 20 859 35 |
| Clerk | 33 272 81 | - | - | - | 33 272 81 |
| Board of Review | 1 207 89 | - | - | - | 1 207 89 |
| Treasurer | 17 868 05 | - | - | - | 17 868 05 |
| Building and grounds | 44 885 57 | - | - | - | 44 885 57 |
| Professional services | 3 186 75 | - | - | - | 3 186 75 |
| Public safety: | | | | | |
| Fire protection | - | 74 363 84 | - | - | 74 363 84 |
| Ambulance | 10 785 00 | - | - | - | 10 785 00 |
| Building inspection | - | - | - | 53 537 80 | 53 537 80 |
| Planning and zoning | 39 381 18 | - | - | - | 39 381 18 |
| Public works: | | | | | |
| Highways and streets | 65 480 49 | - | - | - | 65 480 49 |
| Culture and recreation: | | | | | |
| Library | - | - | 188 050 88 | - | 188 050 88 |
| Capital outlay | - | - | 13 551 95 | - | 13 551 95 |
| Debt service | 99 852 50 | 28 307 60 | - | - | 128 160 10 |
| Total expenditures | <u>356 662 04</u> | <u>102 671 44</u> | <u>201 602 83</u> | <u>53 537 80</u> | <u>714 474 11</u> |
| Excess (deficiency) of revenues over expenditures | 8 935 59 | 38 686 33 | 82 014 33 | (8 233 45) | 121 402 80 |
| Fund balances, July 1 | <u>392 257 44</u> | <u>170 630 59</u> | <u>512 683 60</u> | <u>56 061 51</u> | <u>1 131 633 14</u> |
| Fund Balances, June 30 | <u>401 193 03</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>47 828 06</u> | <u>1 253 035 94</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2007

| | |
|--|------------|
| NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS | 121 402 80 |
|--|------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

| | |
|----------------------|-------------|
| Depreciation Expense | (94 581 15) |
| Capital Outlay | 13 551 95 |

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt
balance in the statement of net assets

| | |
|--------------------------------------|-------------------|
| Principal payments on long-term debt | <u>102 313 51</u> |
|--------------------------------------|-------------------|

| | |
|---|--------------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>142 687 11</u></u> |
|---|--------------------------|

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Branch, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2006 tax roll millage rate was 2.9207 mills, and the taxable value was \$93,296,700.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------------------|------------|
| Buildings, additions and improvements | 50 years |
| Furniture and equipment | 3-23 years |

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | <u>Carrying Amounts</u> |
|----------------|-----------------------------|
| Total Deposits | <u>1 263 232 46</u> |

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

| | <u>Bank Balances</u> |
|--------------------------------|--------------------------|
| Insured (FDIC) | 214 199 60 |
| Uninsured and Uncollateralized | <u>1 057 780 67</u> |
| Total Deposits | <u>1 271 980 27</u> |

The Township of North Branch did not have any investments as of June 30, 2007.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

| | <u>Balance 7/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/07</u> |
|--------------------------|---------------------------|--------------------|------------------|----------------------------|
| Land | 75 500 00 | - | - | 75 500 00 |
| Buildings | 1 264 652 37 | - | - | 1 264 652 37 |
| Equipment | <u>944 066 04</u> | <u>13 551 95</u> | <u>-</u> | <u>957 617 99</u> |
| Total | 2 284 218 41 | 13 551 95 | - | 2 297 770 36 |
| Accumulated Depreciation | <u>(740 820 58)</u> | <u>(94 581 15)</u> | <u>-</u> | <u>(835 401 73)</u> |
| Net Capital Assets | <u>1 543 397 83</u> | <u>(81 029 20)</u> | <u>-</u> | <u>1 462 368 63</u> |

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2007, was \$20,032.86.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of June 30, 2007, the Township had building permit revenues of \$45,205.00 and building permit expenses of \$53,537.80.

Note 9 – Interfund Receivables and Payables

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------|---------------------------------|------------------------|------------------------------|
| General | <u>1 639 74</u> | Current Tax Collection | <u>1 639 74</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 10 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

| | <u>Balance 7/1/06</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 6/30/07</u> |
|---|---------------------------|------------------|--------------------------|----------------------------|
| Fire Building and Truck Contract Payable | 186 313 61 | - | 19 438 33 | 166 875 28 |
| Fire Truck Contract Payable | 39 908 77 | - | 12 875 18 | 27 033 59 |
| Road Commission Contract Payable | <u>350 000 00</u> | <u>-</u> | <u>70 000 00</u> | <u>280 000 00</u> |
| Total | <u><u>576 222 38</u></u> | <u><u>-</u></u> | <u><u>102 313 51</u></u> | <u><u>473 908 87</u></u> |

Note 11 – Fire Building and Truck Contract Payable

On December 2, 1998, through an installment purchase contract with J.A. Contracting and Independent Bank East Michigan, the bank agreed to pay the contractor \$300,000.00 to partially fund the construction of a new fire truck and EMS building. The contract is payable by annual installment of \$28,215.00 including interest at the rate of 4.65% per annum, beginning December 2, 1999. The principal balance as of June 30, 2007, was \$166,875.28.

Note 12 – Fire Truck Contract Payable

On October 27, 2003, the Township borrowed \$64,346.00 from a bank to pay the balance owed on a new fire truck. The loan is payable in five annual installments of \$14,200.10 including interest at the rate of 3.28% per annum beginning November 10, 2004. The principal balance as of June 30, 2007, was \$27,033.59.

Note 13 – Contract Payable – Lapeer County Road Commission

On February 7, 2001, the Township entered into a contract to pay the Lapeer County Road Commission the total amount of \$700,000.00 over a ten year period for road improvements that were made during the fiscal year ended June 30, 2002. The payments are due in semi-annual payments beginning August 1, 2001, including interest at rates from 4.9% to 5.5% per annum. As of June 30, 2007, the principal balance of the contract payable was \$280,000.00.

| <u>Due Date</u> | <u>Interest Rate</u> | <u>Principal Amount</u> |
|-----------------|----------------------|----------------------------|
| 8/1/07 | 4.85% | \$ 70 000 00 |
| 8/1/08 | 4.90 | 70 000 00 |
| 8/1/09 | 4.95 | 70 000 00 |
| 8/1/10 | 5.00 | <u>70 000 00</u> |
| Total | | <u><u>\$280 000 00</u></u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | 135 000 00 | 135 000 00 | 140 440 02 | 5 440 02 |
| Licenses and permits | 5 500 00 | 5 500 00 | - | (5 500 00) |
| State revenue sharing | 154 000 00 | 154 000 00 | 182 121 77 | 28 121 77 |
| Charges for services: | | | | |
| Property tax administration | 25 000 00 | 25 000 00 | 30 689 52 | 5 689 52 |
| Interest | 1 500 00 | 1 500 00 | 1 523 97 | 23 97 |
| Miscellaneous | 1 700 00 | 1 700 00 | 10 822 35 | 9 122 35 |
| Total revenues | <u>322 700 00</u> | <u>322 700 00</u> | <u>365 597 63</u> | <u>42 897 63</u> |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 4 590 00 | 4 840 00 | 3 653 95 | (1 186 05) |
| General government: | | | | |
| Supervisor | 10 285 00 | 10 535 00 | 10 508 21 | (26 79) |
| Elections | 6 630 00 | 8 255 00 | 5 720 29 | (2 534 71) |
| Assessor | 22 905 00 | 23 380 00 | 20 859 35 | (2 520 65) |
| Clerk | 50 293 00 | 50 293 00 | 33 272 81 | (17 020 19) |
| Board of Review | 1 600 00 | 1 600 00 | 1 207 89 | (392 11) |
| Treasurer | 18 510 00 | 18 710 00 | 17 868 05 | (841 95) |
| Building and grounds | 52 925 00 | 57 375 00 | 44 885 57 | (12 489 43) |
| Professional services | 2 500 00 | 4 000 00 | 3 186 75 | (813 25) |
| Public safety: | | | | |
| Fire protection | 10 000 00 | 10 000 00 | - | (10 000 00) |
| Ambulance | 11 000 00 | 11 000 00 | 10 785 00 | (215 00) |
| Planning and zoning | 51 235 00 | 51 435 00 | 39 381 18 | (12 053 82) |
| Public works: | | | | |
| Highways and streets | 254 000 00 | 254 000 00 | 65 480 49 | (188 519 51) |
| Drains | 700 00 | 700 00 | - | (700 00) |
| Debt service | <u>120 000 00</u> | <u>111 050 00</u> | <u>99 852 50</u> | <u>(11 197 50)</u> |
| Total expenditures | <u>617 173 00</u> | <u>617 173 00</u> | <u>356 662 04</u> | <u>(260 510 96)</u> |
| Excess (deficiency) of revenues over expenditures | (294 473 00) | (294 473 00) | 8 935 59 | 303 408 59 |
| Fund balance, July 1 | <u>356 478 00</u> | <u>356 478 00</u> | <u>392 257 44</u> | <u>35 779 44</u> |
| Fund Balance, June 30 | <u>62 005 00</u> | <u>62 005 00</u> | <u>401 193 03</u> | <u>339 188 03</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended June 30, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | 131 212 00 | 131 212 00 | 132 283 66 | 1 071 66 |
| Charges for services | 10 000 00 | 10 000 00 | 6 784 37 | (3 215 63) |
| Interest | 560 00 | 560 00 | 1 736 74 | 1 176 74 |
| Miscellaneous | <u>600 00</u> | <u>600 00</u> | <u>553 00</u> | <u>(47 00)</u> |
| Total revenues | <u>142 372 00</u> | <u>142 372 00</u> | <u>141 357 77</u> | <u>(1 014 23)</u> |
| Expenditures: | | | | |
| Public safety: | | | | |
| Fire protection | 104 375 00 | 105 683 45 | 74 363 84 | (31 319 61) |
| Debt service | <u>50 000 00</u> | <u>48 691 55</u> | <u>28 307 60</u> | <u>(20 383 95)</u> |
| Total expenditures | <u>154 375 00</u> | <u>154 375 00</u> | <u>102 671 44</u> | <u>(51 703 56)</u> |
| Excess (deficiency) of revenues over expenditures | (12 003 00) | (12 003 00) | 38 686 33 | 50 689 33 |
| Fund balance, July 1 | <u>155 124 00</u> | <u>155 124 00</u> | <u>170 630 59</u> | <u>15 506 59</u> |
| Fund Balance, June 30 | <u>143 121 00</u> | <u>143 121 00</u> | <u>209 316 92</u> | <u>66 195 92</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended June 30, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------|--|
| Revenues: | | | | |
| Property taxes | 190 000 00 | 190 000 00 | 202 786 65 | 12 786 65 |
| State revenue sharing | 7 000 00 | 7 000 00 | 4 828 60 | (2 171 40) |
| Penal fines | 50 000 00 | 50 000 00 | 50 980 92 | 980 92 |
| Interest | 6 000 00 | 6 000 00 | 8 086 20 | 2 086 20 |
| Miscellaneous | <u>12 500 00</u> | <u>12 500 00</u> | <u>16 934 79</u> | <u>4 434 79</u> |
| Total revenues | <u>265 500 00</u> | <u>265 500 00</u> | <u>283 617 16</u> | <u>18 117 16</u> |
| Expenditures: | | | | |
| Culture and recreation: | | | | |
| Library | 232 600 00 | 236 100 00 | 188 050 88 | (48 049 12) |
| Capital outlay | <u>138 000 00</u> | <u>134 500 00</u> | <u>13 551 95</u> | <u>(120 948 05)</u> |
| Total expenditures | <u>370 600 00</u> | <u>370 600 00</u> | <u>201 602 83</u> | <u>(168 997 17)</u> |
| Excess (deficiency) of revenues over expenditures | (105 100 00) | (105 100 00) | 82 014 33 | 187 114 33 |
| Fund balance, July 1 | <u>501 994 00</u> | <u>501 994 00</u> | <u>512 683 60</u> | <u>10 689 60</u> |
| Fund Balance, June 30 | <u>396 894 00</u> | <u>396 894 00</u> | <u>594 697 93</u> | <u>197 803 93</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2007

| | |
|-------------------------|------------------|
| Township Board: | |
| Wages | 3 394 42 |
| Social security | 259 53 |
| | <u>3 653 95</u> |
| Supervisor: | |
| Wages | 9 495 00 |
| Social security | 1 013 21 |
| | <u>10 508 21</u> |
| Elections: | |
| Wages | 4 282 20 |
| Social security | 239 11 |
| Printing | 1 198 98 |
| | <u>5 720 29</u> |
| Assessor: | |
| Wages | 16 210 00 |
| Social security | 943 26 |
| Contracted services | 1 334 50 |
| Office supplies | 2 371 59 |
| | <u>20 859 35</u> |
| Clerk: | |
| Wages | 25 533 25 |
| Social security | 1 652 16 |
| Supplies | 4 289 25 |
| Dues | 215 00 |
| Contracted services | 1 583 15 |
| | <u>33 272 81</u> |
| Board of Review | <u>1 207 89</u> |
| Treasurer: | |
| Salary | 11 375 00 |
| Social security | 870 22 |
| Supplies | 4 144 78 |
| Printing and publishing | 1 478 05 |
| | <u>17 868 05</u> |
| Building and grounds: | |
| Wages | 1 144 75 |
| Social security | 87 59 |
| Supplies | 740 31 |
| Telephone | 4 057 16 |
| Utilities | 3 917 27 |
| Insurance and pension | 26 918 34 |
| Contracted services | 4 429 60 |
| Repairs and maintenance | 3 410 55 |
| Miscellaneous | 180 00 |
| | <u>44 885 57</u> |
| Professional services | <u>3 186 75</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2007

| | |
|-----------------------|--------------------------|
| Ambulance | <u>10 785 00</u> |
| Planning and zoning: | |
| Wages | 9 301 03 |
| Social security | 169 86 |
| Contracted services | 28 746 65 |
| Printing | 1 114 11 |
| Miscellaneous | <u>49 53</u> |
| | <u>39 381 18</u> |
| Highways and streets: | |
| Contracted services | <u>65 480 49</u> |
| Debt service | <u>99 852 50</u> |
| Total Expenditures | <u><u>356 662 04</u></u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
June 30, 2007

| | <u>Building</u> | <u>Fire</u> | <u>Library</u> | <u>Total</u> |
|--------------------------------------|------------------|-------------------|-------------------|-------------------|
| <u>Assets</u> | | | | |
| Cash in bank | 47 778 06 | 209 316 92 | 594 597 93 | 851 692 91 |
| Petty cash | <u>50 00</u> | <u>-</u> | <u>100 00</u> | <u>150 00</u> |
| Total Assets | <u>47 828 06</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>851 842 91</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | <u>47 828 06</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>851 842 91</u> |
| Total Liabilities and Fund Balances | <u>47 828 06</u> | <u>209 316 92</u> | <u>594 697 93</u> | <u>851 842 91</u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2007

| | <u>Building</u> | <u>Fire</u> | <u>Library</u> | <u>Total</u> |
|--|-------------------------|--------------------------|--------------------------|--------------------------|
| Revenues: | | | | |
| Property taxes | - | 132 283 66 | 202 786 65 | 335 070 31 |
| Licenses and permits | 45 205 00 | - | - | 45 205 00 |
| State revenue sharing | - | - | 4 828 60 | 4 828 60 |
| Charges for services | - | 6 784 37 | - | 6 784 37 |
| Penal fines | - | - | 50 980 92 | 50 980 92 |
| Interest | 83 35 | 1 736 74 | 8 086 20 | 9 906 29 |
| Miscellaneous | <u>16 00</u> | <u>553 00</u> | <u>16 934 79</u> | <u>17 503 79</u> |
| Total revenues | <u>45 304 35</u> | <u>141 357 77</u> | <u>283 617 16</u> | <u>470 279 28</u> |
| Expenditures: | | | | |
| Fire protection | - | 74 363 84 | - | 74 363 84 |
| Building inspection | 53 537 80 | - | - | 53 537 80 |
| Library | - | - | 188 050 88 | 188 050 88 |
| Capital outlay | - | - | 13 551 95 | 13 551 95 |
| Debt service | <u>-</u> | <u>28 307 60</u> | <u>-</u> | <u>28 307 60</u> |
| Total expenditures | <u>53 537 80</u> | <u>102 671 44</u> | <u>201 602 83</u> | <u>357 812 07</u> |
| Excess (deficiency) of revenues over expenditures | (8 233 45) | 38 686 33 | 82 014 33 | 112 467 21 |
| Fund balances, July 1 | <u>56 061 51</u> | <u>170 630 59</u> | <u>512 683 60</u> | <u>739 375 70</u> |
| Fund Balances, June 30 | <u><u>47 828 06</u></u> | <u><u>209 316 92</u></u> | <u><u>594 697 93</u></u> | <u><u>851 842 91</u></u> |

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2007

| | <u>Balance</u> <u>7/1/06</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>6/30/07</u> |
|--------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in Bank | <u>52 440 11</u> | <u>2 405 800 62</u> | <u>2 418 699 47</u> | <u>39 541 26</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | 11 049 23 | 267 660 28 | 277 069 77 | 1 639 74 |
| Due to others | <u>41 390 88</u> | <u>2 138 140 34</u> | <u>2 141 629 70</u> | <u>37 901 52</u> |
| Total Liabilities | <u>52 440 11</u> | <u>2 405 800 62</u> | <u>2 418 699 47</u> | <u>39 541 26</u> |

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
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BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 19, 2007

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the financial statements of the Township of North Branch for the year ended June 30, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of North Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of North Branch
Lapeer County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., PC
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants